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SUBJECT: ITALIAN PROSECUTORS QUESTION PM DJUKANOVIC ABOUT '90S  
CIGARETTE SMUGGLING ALLEGATIONS

¶1. (SBU) SUMMARY: Montenegrin PM Milo Djukanovic voluntarily traveled to Bari, Italy on March 31 for questioning by Italian prosecutors. Djukanovic and another 14 Montenegrins have been under investigation by the Italian authorities since 1999 for "associating with the mafia to profit from cigarette smuggling from 1994 to 2002." Djukanovic's lawyer said Djukanovic had denied that he (the PM) or Montenegro had done anything wrong -- Djukanovic claimed Montenegro had legally licensed the transit of cigarettes in order to survive at a time when Montenegro was under pressure both from Milosevic and international sanctions against the former Yugoslavia. The Montenegrin opposition used Djukanovic's appearance in Bari to launch another wave of criticism against the PM just before the country's April 6 presidential elections. End Summary.

#### Background On The Case

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¶2. (U) Media reports differ on the content of the allegations against Djukanovic, but most agree that Djukanovic is accused of playing a key role in a massive smuggling scheme which began in 1994 when Djukanovic (who was also PM at that time) granted a license to Swiss national Franco de la Torre to import about 1,000 tons of cigarettes per month from the U.S. to Montenegro. (Note: De la Torre is currently on trial in Italy on other charges). The cigarettes were transferred to a state-owned freight company called "Zetatrans," which transported them to the Montenegrin ports of Zelenika and Bar. From there, and with the authorization of the Montenegrin police, Italian speed boats carried the cigarettes to Italy, where Italian criminal structures allegedly sold or re-exported them without paying import duties. Djukanovic also is accused of providing shelter in Montenegro to mafia figures wanted by Italian police.

¶3. (U) The investigation into Djukanovic's activities was completed in June 2007, but Italian judiciary bodies apparently have still not decided whether or not to formally indict. At the time, they gave the suspects a 20-day deadline to present their defense before the Italian judiciary.

¶4. (U) In addition to Djukanovic, the Italian judiciary opened investigations against 14 other Montenegrins, including Miroslav Ivanisevic, former Minister of Finance and current Chairman of the Senate of the State Auditing Office, Dusanka Jeknic, former Head of the Montenegrin Trade Mission to Italy, and businessmen Stanko Subotic, Veselin Barovic, Branko Vujosevic, Brano Micunovic, and Andrija Draskovic. Eight persons (Ivan Krcmaric,

Nikola Milosevic, Jovica Randjelovic, Dusan and Milan Rankovic, Slavko Zecevic, Zoran Dzajic and Miloje Sarac) were charged with transferring 500 million euros, allegedly earned from cigarette smuggling and laundered through banks in Switzerland and Lichtenstein, from Montenegro to a Cypriot bank (account number 03854109703949).

¶5. (U) The Italian press says Montenegro earned about 25% of its gross national income during the 1994-1999 period from cigarette smuggling (which continued until about 2002, but with less intensity), while Italy lost about four billion lira annually due to non-payment of taxes on cigarettes. Italian investigators believe profits from cigarette smuggling reached seven million dollars per month.

¶6. (U) According to the media, two separate investigations by police and prosecutors in Bari and Naples were unified in 1999, and the Directorate of the Special Prosecutor in Bari was given responsibility for the final phases of investigation. The evidence presented by Italian prosecutors reportedly was based on statements collected by mafia informants ("pentiti").

#### Related Trials

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¶7. (SBU) In Serbia, the state prosecutor's office opened an investigation several years ago of Marko Milosevic (son of Slobodan Milosevic), Stanko Subotic (the controversial businessman also being investigated by the Italians), and Sinisa

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Stojicic (brother of Radovan Stojicic Badza, deputy Minister of Interior of Serbia murdered in 1997) for their alleged involvement in cigarette smuggling. The Belgrade press claims Djukanovic was mentioned in the investigation of Subotic and Milosevic.

¶8. (SBU) In 2000 and 2002, the EU Commission filed a lawsuit in the U.S. against RJ Reynolds Tobacco, Japan Tobacco, and Philip Morris on charges that they had caused several billion dollars in lost tax revenues in EU countries. According to the lawsuit, during the 1990s, RJ Reynolds sold cigarettes to Montenegro and earned an unspecified but enormous profit. Large sums of money were allegedly paid to Djukanovic and other Montenegrin state officials for transport of the cigarettes through "Zetatrans." A Federal Court in Brooklyn rejected the lawsuit, but the EC Commission has appealed that ruling.

#### Djukanovic Denies Allegations

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¶9. (U) Bari prosecutors questioned Djukanovic for six hours on March 31. Djukanovic's defense attorney Tucilo told journalists on April 1 that Djukanovic asked to talk with the prosecutor's office in Bari over a year ago "in order to clarify the situation." According to Tucilo, Djukanovic had responded to all the Prosecutor's questions and had denied all accusations. Italian and Montenegrin media reported that Djukanovic appeared before Bari Deputy Prosecutors Eugenia Pontasula and Giuseppe Selzi at his own initiative.

¶10. (U) Tucilo told the media that Djukanovic had explained to the prosecutors that he did not know anything about the presence of Italian mafia figures in Montenegro, that the Montenegrin government had never been involved in criminal activities, and that Montenegro had in fact fought against mafia clans. Tucilo said Djukanovic had asserted that the cigarette business in Montenegro in the 1990s was legal, and that the licensing of the transit of cigarettes had been essential for Montenegro's financial survival at a time when the country was under pressure from both Milosevic and international sanctions against the former Yugoslavia. According to Tucilo, Djukanovic also said that if there were questions about what happened to the cigarettes once they left Montenegro, those questions should be dealt with by the Italian judiciary. (Note: In response to questions about the Swiss and Cypriot bank accounts, Tucilo noted that at the time Montenegrin ministers were permitted to open foreign bank accounts.)

¶11. (U) Djukanovic told the press on April 2 that he appeared in Bari on his own initiative to put an end to the allegations. According to a GoM press release issued after Djukanovic's return from Bari, "despite his immunity and the obligations that he has as the leader of the strongest party in the upcoming elections, Djukanovic insisted on giving his testimony. He believes that Montenegro, and he, will be absolved of the unfounded accusations which damaged his reputation for years, and which were also abused for political purposes."

Fate of Case Unclear

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¶12. (U) Vesna Cejovic, a Montenegrin expert on Italian law, told the media that once the Italian prosecutors completed the investigation, they were obliged to forward the case to a judge, who would then decide whether to issue a formal indictment. Citing unnamed sources in the Italian judiciary, ANSA reported that the Italians would shelve the investigation of Djukanovic because of the PM's diplomatic immunity. (Note: Djukanovic denied that he knew that he would be cleared of the charges because of his immunity.) Cejovic noted that the case could be formally closed only if the state prosecutor requested it.

¶13. (U) The Montenegrin weekly "Monitor" claimed Djukanovic had reached a deal with the Italian prosecutor, according to which

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Djukanovic would not be indicted while the other suspects in the case could be held accountable. (Note: Monitor did not identify its source.)

Comment

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¶14. (SBU) The Montenegrin opposition quickly jumped on Djukanovic's appearance in Bari, which occurred just a few days before Montenegro's April 6 presidential election, as evidence of the PM's past wrongdoing. The opposition daily "Dan" alleged that the Italians had been prepared to issue an arrest warrant for Djukanovic unless he testified. It is unclear what will happen next, but most Montenegrins believe the Italians will quietly shelve the case, or go after lower-level suspects, rather than take on a sitting PM with diplomatic immunity. In the event, the scandal did not hurt Djukanovic's DPS, whose candidate Filip Vujanovic won the presidential race with a landslide 52%. Even so, the case continues to dog Djukanovic,

and raises questions about rule of law in Montenegro at a time when the country is seeking to speed its integration with Euro-Atlantic institutions.

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